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**LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**

**FINANCIAL STATEMENTS**

**AUGUST 31, 2006**

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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 3-7-07



**LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**

**FINANCIAL STATEMENTS**

**AUGUST 31, 2006**

# **LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**

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**INDEPENDENT AUDITORS' REPORT**

Board of Managers  
Louisiana Sheriffs' Law Enforcement Program  
Baton Rouge, Louisiana

We have audited the accompanying statement of net assets of Louisiana Sheriffs' Law Enforcement Program (a quasi-public organization) (the Program) as of August 31, 2006, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Sheriffs' Law Enforcement Program as of August 31, 2006, and the changes in its financial position, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The Program has not presented certain historical information related to its insurance activities, including premium and investment revenues, unallocated claim adjustment expenses and other costs, and incurred claims and allocated claim adjustment expenses. Accounting principles generally accepted in the United States of America has determined that this information is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report, dated December 14, 2006, on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
December 14, 2006

## **LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS** **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Sheriffs' Law Enforcement Program's (the Program), financial performance presents a narrative overview and analysis of the Program's financial activities for the year ended August 31, 2006. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Program's financial statements, which follow this section.

#### **Financial Highlights**

- The assets of the Program exceeded its liabilities at August 31, 2006 by \$3,811,056 compared to \$1,356,984 as of August 31, 2005, which is a 181% increase from the previous year.
- At August 31, 2006, the Program's assets totaled \$12,701,109, which consisted primarily of cash and short-term investments and investment securities primarily of direct and indirect investments in certificates of deposit, high quality corporate and government debt obligations.
- The Program reported earned premiums of \$6,206,402 during the year ended August 31, 2006 and an increase in net assets of \$2,454,072.
- At the end of the current fiscal year, net assets totaled \$3,811,056 or 91% of the current year expenses.

#### **Overview of the Financial Statements**

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Program report information about the Program using accounting methods similar to those used by private sector businesses. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the Program's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Program's members and creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Program and assessing the liquidity and financial flexibility of the Program. All of the year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the Program's operations over the year and can be used to determine whether the Program has successfully recovered all its costs through its premium and investment income, profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Program's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

The preparation of these financial statements requires the utilization of significant estimates, many of which will not be known for many years. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statement of Revenues, Expenses and Changes in Net Assets as these circumstances become known.

## Financial Analysis of the Program

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information in a way that the reader can determine if the Program is in a better financial position as a result of the year's activities. These statements report the net assets of the Program and changes in them. The net assets (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Program's net assets are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

### Condensed Statements of Net Assets

	<u>August 31, 2006</u>	<u>August 31, 2005</u>
Total assets	\$ <u>12,701,109</u>	\$ <u>9,571,036</u>
Total liabilities	<u>8,890,053</u>	<u>8,214,052</u>
Net assets	\$ <u>3,811,056</u>	\$ <u>1,356,984</u>

All of the Program's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Managers of the Program. Total assets increased approximately 33% and consist primarily of cash, certificates of deposit, government investments and securities, premiums and member deductibles receivable, and prepaid excess insurance. Total liabilities increased approximately 8% due to increases in claims liabilities and deposits held for others. Net assets increased approximately 181% from the prior year.

### Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>Year Ended August 31, 2006</u>	<u>Year Ended August 31, 2005</u>
Total operating revenues	\$ <u>6,206,402</u>	\$ <u>6,004,463</u>
Total operating expenses	<u>4,185,998</u>	<u>6,232,778</u>
Non-operating income	<u>433,668</u>	<u>96,111</u>
Change in net assets	\$ <u>2,454,072</u>	\$ <u>( 132,204)</u>

Operating revenues increased \$201,939 or 3% due primarily to an increase in the number of members, which was offset by decreases in premium related to members affected by Hurricanes Katrina and Rita. Total operating expenses decreased \$2,046,780 or 33% due primarily to decreased claims and related expense costs. The 2006 operating expenses were decreased by \$711,640 of favorable development related to estimated claims arising in prior years. The Program's change in net assets for 2006 was an increase of \$2,454,072 as a result primarily of decreased claims and related expense costs.

### **Requests for Information**

This financial report is designed to provide our members, investors, and creditors with a general overview of the Program's finances, as well as demonstrate accountability for funds the Program receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Sheriffs' Law Enforcement Program, 1175 Nicholson Drive, Baton Rouge, LA 70802 or 225-343-8402.



**LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**

**STATEMENT OF NET ASSETS**

**AUGUST 31, 2006**

**ASSETS**

Cash and cash equivalents	\$ 643,271
Cash and cash equivalents - segregated	74,227
Investments	9,639,564
Investments - segregated	800,000
Premiums receivable from members	66,655
Member deductibles receivable	53,624
Due from Louisiana Sheriffs' Association	63,053
Accrued interest receivable	94,441
Prepaid excess insurance	<u>1,266,274</u>
	<u>\$ 12,701,109</u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Unpaid claims liability	\$ 7,940,000
Deposits held for others	917,523
Accounts payable and accrued expenses	28,003
Due to Louisiana Sheriffs' Risk Management Program	<u>4,527</u>
Total Liabilities	8,890,053
Net assets, unrestricted	<u>3,811,056</u>
	<u>\$ 12,701,109</u>

See accompanying notes to financial statements.

**LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEAR ENDED AUGUST 31, 2006**

**OPERATING REVENUES**

Premium income	\$ 6,206,402
Total operating revenues	<u>6,206,402</u>

**OPERATING EXPENSES**

Claims expense	2,408,651
Excess insurance	1,195,713
Administrators fees	306,132
LSA administration fees	120,107
Other general and administrative expenses	<u>155,395</u>
Total operating expenses	<u>4,185,998</u>

**OPERATING INCOME**

2,020,404

**NON-OPERATING INCOME**

Investment income - net	375,502
Other income	<u>58,166</u>
Total non-operating income	<u>433,668</u>

**CHANGE IN NET ASSETS**

2,454,072

**NET ASSETS - BEGINNING OF YEAR**

1,356,984

**NET ASSETS - END OF YEAR**

\$ 3,811,056

See accompanying notes to financial statements.

**LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**

**STATEMENT OF CASH FLOWS**  
**YEAR ENDED AUGUST 31, 2006**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

<u>Cash received from:</u>	
Member premiums collected	\$ 6,327,936
Member deductibles and other reimbursements collected	304,735
Deposits held for others	500,000
<u>Cash paid for:</u>	
Service providers	(3,030,203)
Claims and claims expenses	(2,277,010)
Deposits held for others	(331,944)
Net cash provided by operating activities	<u>1,493,514</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Investment income	340,145
Proceeds from the sale and maturity of investments	6,663,815
Purchases of investments	<u>(9,743,579)</u>
Net cash used in investing activities	<u>(2,739,619)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Net transfers from Louisiana Sheriffs' Association	50,535
Net transfers from Louisiana Sheriffs' Risk Management Program	<u>4,527</u>
Net cash provided by financing activities	<u>55,062</u>

**NET CHANGE IN CASH** (1,191,043)

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** 1,908,541

**CASH AND CASH EQUIVALENTS, END OF YEAR** \$ 717,498

**Reconciliation of change in net assets to net cash  
provided by operating activities:**

Change in net assets	\$ 2,454,072
Investment income	(403,839)
Other income	(58,166)
Net change in fair value of investments	(305,121)
Net realized losses on sale of investments	<u>333,458</u>
Operating income	2,020,404
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in receivables	67,910
Change in prepaid expenses	(1,266,274)
Change in unpaid claims liability	490,000
Change in deposits held for others	168,056
Change in accounts payable and accrued expenses	<u>13,418</u>
Net cash provided by operating activities	<u>\$ 1,493,514</u>

See accompanying notes to financial statements.

**LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**  
**BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) *Organization***

The Louisiana Sheriffs' Law Enforcement Program (the Program), and its related Articles of Association were created pursuant to the provisions of Louisiana R.S. 33:1481-1485 so that participating Louisiana Sheriffs could self-insure against public liability for their acts and acts of their deputies, employees, agents and officers. The daily operations of the Program are controlled by the Board of Managers, consisting of eight Sheriffs elected by a majority vote of the Sheriffs in each Congressional District. Managers are elected for staggered terms of four years and may be re-elected to any number of successive terms.

The Program's insurance administration is performed by a third party administrator, whose duties consist of development of the self-insurance fund, billing and collecting, securing excess or reinsurance coverage, adjudicating claims and other services as directed by the Board of Managers.

The Louisiana Sheriffs' Association (LSA) provides bookkeeping support as well as other general administrative functions for the Program.

The Program is affiliated through common membership and management control with the LSA, the Louisiana Sheriffs' Risk Management Program, and the Louisiana Sheriffs' Automobile Program. Although all of these entities are related parties, their various net assets are available only to the individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 10 and 14.

**(b) *Basis of Accounting***

The financial statements of the Program have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Program applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The Program is a proprietary fund type and is presented as a business type activity. Proprietary fund types are used to account for governmental activities that are similar to those found in the private sector where the determination of operating income and changes in net assets is necessary or useful for sound financial administration. Generally Accepted Accounting Principles (GAAP) used for proprietary funds are generally those applicable to similar businesses in the private sector (accrual basis of accounting). Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

Since the business of the Program is essentially that of an insurance company having a business cycle greater than one year, the balance sheet is not presented in a classified format.

**LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**  
**BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(c) *Investments***

Investments are reported at estimated fair value. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized and unrealized gains and losses on investments recorded at fair value are included in net investment income.

**(d) *Operating / Non-operating Revenue and Expenses***

Operating revenues consist of member premiums as these revenues are generated from the Program's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Program's statutory purpose are classified as non-operating.

**(e) *Premium Income and Accounts Receivable***

Premiums are recognized as income over the term of the policies as they become earned on a pro-rata basis. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known. The costs associated with new and renewal contracts as acquisition costs are immaterial to the financial statements and are expensed when incurred.

Premium and deductible receivables are comprised of amounts due from members and are considered to be fully collectible by management; therefore, no reserve for bad debts has been established.

**(f) *Statement of Cash Flows***

For the purposes of the statement of cash flows, cash includes cash in demand deposit accounts with banks and money market funds.

**(g) *Excess Insurance***

The Program uses excess insurance to reduce its exposure to large losses on insured events. The Program does not report risks covered by excess insurance as liabilities unless it is probable that those risks will not be covered by excess insurance carriers.

**LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**  
**BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(h) *Unpaid Claims Liability***

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of excess insurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The carrying amount of liabilities for claims losses and claims expenses is presented at the estimated claim amounts in the financial statements. To reflect their present value, claims reserves have been discounted at 5.0% for August 31, 2006.

**(i) *Income Taxes***

The Program is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

**(j) *Use of Estimates***

Management of the Program has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

**(k) *Net Assets***

The net assets of the Program are available to pay the obligations of the Program or may be returned to participating members and are considered unrestricted. Should the Program exhaust its assets available to pay obligations, outstanding claim liabilities would become the responsibility of the respective member.

**LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**  
**BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**2. RELATED PARTY TRANSACTIONS**

LSA provides services related to the general administrative functions of the Program, as well as rental of office space on a month to month basis. The fees for these services are based on a percentage of the Program's collected monthly premium from members. Total fees were approximately \$120,000 for the year ended August 31, 2006. Also, at August 31, 2006, the Program has an amount due from LSA of approximately \$63,000 for cash transfers made to LSA before year end and other funds collected by LSA on the Program's behalf.

The Program has an amount due to the Louisiana Sheriffs' Risk Management Program of approximately \$4,500 for a member deductible collected on behalf of that program.

The Program provides insurance coverage for Sheriffs making up the Program's Board of Managers.

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the Program's aggregate unpaid claims liabilities for the year ended August 31, 2006:

Liability for unpaid losses at beginning of year	\$ 7,450,000
Net incurred related to:	
Current year	3,120,291
Prior years	<u>(711,640)</u>
Total incurred	<u>2,408,651</u>
Net paid related to:	
Current year	246,704
Prior years	<u>1,671,947</u>
Total paid	<u>1,918,651</u>
Liability for unpaid losses at end of year	<u>\$ 7,940,000</u>

The Program provides risk coverage to members on a claim-made basis. The Program's claims payable have been discounted at August 31, 2006, based on the Program's anticipated payout patterns and a discount rate assumption of 5.0%, which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$830,000 at August 31, 2006.

The Program experienced overall favorable development on unpaid claims liabilities established in prior years. In establishing reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage litigation. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at August 31, 2006 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through August 31, 2006 will not vary from the above estimates, and such difference could be significant.

**LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**  
**BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**4. CASH EQUIVALENTS AND INVESTMENTS**

At August 31, 2006, investment securities of \$10,439,564 and cash and cash equivalents of \$717,498, consist of the following:

	<u>Cost</u>	<u>Estimated Fair Value</u>	<u>Percentage of Investments</u>	<u>Moody's/ Standard &amp; Poors Rating</u>	<u>Weighted- Average Maturity (Years)</u>
Negotiable certificates of deposit	\$ 4,500,000	\$ 4,500,000	43.1%	Not rated	0.76
U.S. Government debt obligations	4,987,985	4,978,655	47.7%	Aaa	1.10
Corporate debt obligations	300,000	293,992	2.8%	Aaa	
	100,000	81,000	0.8%	Not rated	
	400,000	374,992	3.6%		10.74
Bond mutual funds	429,213	412,817	4.0%	(1)	
	225,000	173,100	1.6%	AAA	
	654,213	585,917	5.6%		(2)
Subtotal - amount reported as investments	10,542,198	10,439,564	100.0%		
Money market funds	481,593	481,593		Not rated	
Cash in demand deposit accounts	235,905	235,905			
Total cash and investments	<u>\$ 11,259,696</u>	<u>\$ 11,157,062</u>			

(1) Substantially invested in U.S. government securities; quality ratings are not required for U.S. government securities.

(2) Weighted-average maturity is not applicable to investments in debt securities in mutual funds, common stocks, and stock mutual funds.

At August 31, 2006, the Program has cash equivalents (book balances) totaling \$481,593, which are held in an investment brokerage account. This balance represents an investment in money market funds, that because of their relative liquidity, are reported as cash equivalents on the Statement of Net Assets.

The Program has, at the request of its excess insurance carrier, invested additional premiums collected from members electing to purchase higher specific excess of loss coverage limits in a segregated investment brokerage account. At August 31, 2006, the Program has \$874,227 of assets invested in an investment brokerage account segregated for this purpose.



**LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**  
**BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**4. CASH EQUIVALENTS AND INVESTMENTS (continued)**

***Custodial Credit Risk***

Custodial credit risk for cash and cash equivalents (demand deposit accounts and money market funds) is the risk that in the event of financial institution failure, the Program's deposits may not be returned to them. The Program has no custodial credit risk with respect to demand deposit accounts at August 31, 2006. The Program's investments in money market funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Program will not be able to recover the value of its investments that in the possession of an outside party. At August 31, 2006, the Program's investments in negotiable certificates of deposit, government debt obligations, and corporate debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. The Program's investments in bond mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will be unable to meet its obligations. The Program minimizes this risk by adhering to an investment strategy designed to achieve a conservative risk/return characteristic by investing a significant portion of its investment portfolio in securities directly issued by or guaranteed by the U.S. Government.

***Concentration of Credit Risk***

Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Program's investment in a single issuer. At August 31, 2006, there were no investments in any one issuer, except U.S. Government debt obligations, that represented 5% or more of total investments.

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the estimated fair value of an investment. The Program measures and monitors the weighted-average maturity of the fixed income securities portfolio to manage exposure to interest rate risk. This includes the weighted-average maturities of the total fixed income portfolio, individual securities, as well as categories of securities held by the Program.

**LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**  
**BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**4. CASH EQUIVALENTS AND INVESTMENTS (continued)**

The scheduled contractual maturities of investments in debt obligations and certificates of deposit held at August 31, 2006 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or payment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year	\$ 8,491,194	\$ 8,483,084
Due after one year through five years	996,332	978,356
Due after five years through ten years	-	-
Due after ten years	<u>400,459</u>	<u>392,207</u>
	<u>\$ 9,887,985</u>	<u>\$ 9,853,647</u>

Net investment income for the year ended August 31, 2006 consists of the following:

Interest and dividend income	\$ 403,839
Realized losses – net	(333,458)
Unrealized gains arising during the year – net	<u>305,121</u>
	<u>\$ 375,502</u>

**5. EXCESS INSURANCE POLICY COVERAGE**

During the years ended August 31, 2006 and 2005, the Program obtained excess insurance coverage from Princeton Excess & Surplus Lines Insurance Company, which is rated "A" Excellent by A.M. Best Company. The Program retains the first \$100,000 of loss exposure. Participating members may elect to purchase specific excess of loss coverage limits of \$900,000, \$1,900,000, or \$2,900,000. The specific excess of loss insurance policy has a \$6,000,000 aggregate limit for all members.

For prior years, the Program also obtained specific excess insurance coverage with differing specific and aggregate loss limits from other excess insurance carriers.

These excess contracts do not relieve the Program from its obligations to members. Failure of excess carriers to honor their obligations could result in losses to the Program. The Program evaluates the financial condition of its excess carriers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the excess carrier to minimize its exposure to significant losses from excess carrier insolvencies.

**LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**  
**BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**6. DEPOSITS HELD FOR OTHERS**

The Program provides bookkeeping and other general administrative services to one parish sheriffs group who operates a self-funded insurance program. The Program does not bear insurance risk for this group and, accordingly, excludes the activity of this group from premiums and claims expense. The group deposits funds with the Program, and the Program disburses the funds according to the group's financial obligations. The Program is paid an administrative fee for these services. At August 31, 2006, deposits held by the Program for this group totaled \$917,523.

**7. CONTINGENCIES**

As a normal course of business, the Program becomes involved in various insurance related claims and legal actions. Management of the Program establishes estimated liabilities for reported and unreported contingencies. Management believes that the outcome of claims and any related legal proceedings will be provided for by the estimated insurance liabilities and will not have a material adverse effect on the Program's financial position or results of operations.



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**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with Government Auditing Standards**

Board of Managers  
Louisiana Sheriffs' Law Enforcement Program  
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana Sheriffs' Law Enforcement Program (a quasi-public organization) (the Program) as of and for the year ended August 31, 2006, and have issued our report thereon dated December 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Louisiana Sheriffs' Law Enforcement Program, the Louisiana Legislative Auditor's Office and the Louisiana Commissioner of Insurance, and is not intended to be and should not be used by anyone other than these specified parties.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
December 14, 2006